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**Sent:** Thursday, November 01, 2007 12:15 PM

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**Subject:** Lottery report regarding consumer reporting and security processes

**To:** Legislative Leaders and Government Oversight Committee members

**From:** Mary Neubauer  
Iowa Lottery  
515-725-7906

**Date:** Nov. 1, 2007

**Re:** Review of Lottery Consumer Reporting and Security Processes

At the Iowa Lottery Board meeting this morning, I made a presentation to the Board regarding consumer reporting and security processes at the Iowa Lottery. Our report to the Board follows consultant reports that have just been released in Canada concerning security matters at some lotteries there.

The Iowa Lottery takes great pride in the work done by its security department and believes those efforts are integral to maintaining the integrity of the lottery. We wanted to have an in-depth discussion with our Board about the matters, and if our Board indicated that it wanted the Iowa Lottery to pursue a similar consultant here, we stood ready to do that.

Our Board members indicated that they believe our security and reporting procedures are quite robust and they see no need for a consultant to review the matters. The Board members, however, advised us to be open to possible improvements to our system, which we certainly are and will continue to be.

I am attaching a copy of the report to the Lottery Board for your review. If you have any questions, please feel free to contact me.

The Iowa Lottery Board members are:

- Sioux City Attorney Tim Clausen, Board Chair.
- Cedar Rapids lawyer and accountant Mary Junge, Vice Chair.

- Former legislator and Secretary of State Elaine Baxter of Burlington.
- Cedar Rapids Police Chief Mike Klappholz.
- Des Moines marketing consultant Tom Rial.
- Treasurer of State Mike Fitzgerald, Ex-Officio member.

Chester J. Culver  
Governor



Patty Judge  
Lt. Governor

**To: Iowa Lottery Board**

**From: Mary Neubauer**  
**Vice President, External Relations**

**Date: Nov. 1, 2007**

**Re: Review of Consumer Reporting and Security Processes**

For about a year, we at the Iowa Lottery have been tracking a series of security-related, consumer protection issues that have arisen at lotteries in Canada. Ed Stanek has been sending along information regarding the Canadian developments to you as we continued to monitor the situation.

There are fundamental differences between the way consumer concerns and security issues were handled at some of the lotteries in Canada and the processes we have in place here. We also believe that the Iowa Lottery has taken many proactive steps through the years to remind consumers about the security tips they can follow to be fully informed when they play lottery games. Nevertheless, the issues that have arisen in Canada deserve attention by all lotteries.

We believe we have a well-developed system here in Iowa that provides consumers with information about lottery tickets and their results. In addition, our security and integrity standards ensure that 100 percent of issues referred to our security department are investigated. But, that does not mean that there aren't other approaches we could consider using here.

Let's start a discussion today and continue it at future Board meetings so we all can examine the issues together as part of our public meetings.

The issues in Canada date back to 2001 when an Ontario man visited a variety store that sold lottery tickets and asked the store owner's wife, who was working at the check-out counter that day, to check his lotto tickets. She told him he had won a free ticket, but didn't mention any other prizes. The man later became suspicious when he read in the paper that the store owner and his wife had won a \$250,000 prize. He contacted the Ontario Lottery Corporation and was able to provide documentation to the lottery showing that he had regularly played the numbers that were on the \$250,000-winning ticket. He also provided details about what happened when he went into the store to have his lotto tickets checked that day.

The man's account was in stark contrast to that of the supposed winning couple, who could not say when or where the ticket was obtained or if there was any significance to the numbers chosen. Despite that, it appears that it took the lottery months to look into the matter. And even then, much of the lottery's activity began only after local police had arrested the husband-and-wife team who ran the store and charged them with fraud and theft. After that, the man still had to go to court to try to collect his winnings. The civil litigation lasted for three years, but he did eventually receive a \$150,000 settlement from the retailers involved and a \$200,000 settlement from the Ontario Lottery.

It's important to point out that there are no complaints of situations reported by Iowa Lottery players being ignored or left uninvestigated. Any issues relating to security or possible matters of impropriety are referred to the Iowa Lottery's security department, where 100 percent of referrals are investigated, and when appropriate, referred to law enforcement.

We want to go over some other key differences between the situation that existed in Ontario and the processes and standards we have in place here.

First and foremost, the Iowa Lottery requires that those applying for a lottery retail license undergo background checks by the Iowa Division of Criminal Investigation. Anyone who has been convicted of a fraud, felony or gambling violation is not licensed as a lottery retailer in Iowa. At the time of the case we've been discussing in Ontario, no pre-screening was done of those who applied to sell lottery products there.

In addition, the Iowa Lottery issues terms and conditions for its retail licenses and those businesses that are licensed to sell lottery tickets must comply with those terms and conditions. A first-time violation of the terms and conditions results in a one-week suspension of the retail license and therefore, the store's ability to sell lottery products. A second violation within a year results in a one-month suspension of the retail license; and a third violation within a year results in a one-year suspension of the retail license. Any suspected criminal activity would be referred to law enforcement. Any conviction for fraud, compromising the security or integrity of the lottery, illegal gambling, or any felony, would lead to a license revocation. In Iowa a revoked license applies for 10 years unless the Board finds that the violation was minor or unintentional.

At the time of the case in Ontario, there was no specific "Code of Conduct" for retailers there.

There have been instances where retailer licenses have been suspended in Iowa. In 2006, for example, two retail licenses were suspended after documented cases of underage sales at those stores. Such instances have been rare -- retailers in Iowa in general have a strong record of handling and selling a wide range of products, including lottery tickets. But in the instances where there have been violations, the lottery has dealt with them according to its retailer terms and conditions.

Another major difference between the situation described in Canada and the procedures of the Iowa Lottery lies in the key area of investigation. The Iowa Lottery has its own staff of five investigators, all of whom are required to have a history of law enforcement work and training.

Our investigators must have law enforcement academy training at a minimum and complete annual continuing education classes in law enforcement matters. Through the years, Harry Braafhart, our Vice President of Security, has provided you with reports at Board meetings about the investigations conducted by the Iowa Lottery's security department. Many of those investigations have been prompted by reports of stolen tickets or ownership disputes over lottery tickets. The lottery's security department has a strong record of investigation and apprehension in its cases.

Let me give you a couple key examples. One is a case many of us remember well. In 1999, an Urbandale convenience store clerk came to lottery headquarters and claimed a \$28 million Powerball jackpot. After he made his claim but before the prize was paid, an underage co-worker came forward and claimed a share of the prize. The lottery investigated the claim and involved the Attorney General's office. The co-worker filed a lawsuit against the claimant. It was determined that the case was not a criminal matter, so the details of the lottery's investigation were made available to the parties, who then reached a settlement agreement, ending the litigation.

The other case involves a \$100,000-winning Powerball ticket that was claimed in 2001 by an 85-year-old woman from Sperry in southeastern Iowa. After the prize had been paid, the lottery received a telephone call from a man who said he suspected that the winning ticket had been stolen from a group of co-workers at a Mediapolis company who pooled their money to buy Powerball tickets. The lottery investigated the case and was able to show that the winning ticket had been switched out from among those that were purchased for the group of co-workers. As it turned out, the woman who bought tickets on behalf of the group lived with her grandmother. The grandmother pleaded guilty later that year to felony theft in the case. She had stolen the winning ticket from its hiding place under a bird cage in the home she shared with her granddaughter.

There are two different examples for you – one involving a dispute before a prize was paid and the other involving questions that arose after the prize was paid. In both instances, the lottery investigated the matter and sought and received the assistance of outside law enforcement, which ultimately brought the cases to resolution.

We're proud of the success rate lottery security has achieved through the years. Nationally, arrests are made in just 16 percent of burglary cases, but because of the specific information that can be provided about lottery tickets, arrests have been achieved in 88 percent of burglaries investigated by lottery security. Theft cases investigated by lottery security are solved about 85 percent of the time.

That is not to say there haven't been concerns expressed by lottery players about retailers in the state. There have been, and those instances have been investigated by the lottery. A case earlier this year in Burlington is a good example. In that instance, an elderly woman called the lottery and spoke with one of our security officers. She said she had recently redeemed a Powerball ticket at a local supermarket and was certain that she had won \$200,000, but the clerk had only paid her \$35. She was not sure where she had purchased the ticket and couldn't remember exactly when she had redeemed it, but thought it was on one of two days.

Even with just those few details to work with, our security department was able to check the lottery records from the store involved. Our security officer was able to show that the woman had indeed won \$35 in the Powerball drawing on July 11. She had matched three numbers to win a \$7 prize and by adding the Power Play to her ticket, her prize had been multiplied to \$35.

Our security officer then called the woman back with his findings and she thanked him for his help and his time.

That is the same approach our security department uses in any case it investigates. If there is something amiss, we want to know that so we can rectify the situation. If there is nothing wrong, we want to know that as well and be able to share that information with those involved so they can have peace of mind.

Another major area of difference between the procedures of the Iowa Lottery and those that were highlighted in Ontario has to do with the issue of so-called "insider wins." In Ontario, it is legal for lottery employees and their immediate family members to play the lottery. In addition, it is legal for employees of the lottery's key contractors and subcontractors to play the lottery. There are additional security checks that are conducted if any of those people wins a large prize, but they are not prevented from playing. There have been concerns expressed in Ontario and some other Canadian provinces about the issues involved when retailers or retail employees play the lottery, but not as much discussion about lottery employees or employees of lottery contractors playing the games.

That is in stark contrast to state law here in Iowa and the security requirements of our lottery. Iowa Code section 99G.31 makes it illegal for lottery tickets to be purchased or for prizes to be paid to Iowa Lottery Board members; employees of the lottery, or to any spouse, child, brother, sister or parent residing as a member of the same household in the principal place of residence of any of those people. The law also puts those same restrictions on employees, agents and subcontractors of lottery vendors who have access to confidential information that could compromise the integrity of the lottery. Specified family members of those people also are prohibited from purchasing tickets or winning lottery prizes.

So, here in Iowa, lawmakers considered "insiders" to be employees of the lottery and employees of subcontractors or vendors with inside information that could compromise the lottery if they were allowed to play. The lottery maintains a database of the Social Security numbers of all its employees; the employees of the independent auditors assigned to work at lottery drawings; and those employees of subcontractors and vendors who have inside access to information that might compromise the integrity of the lottery. The database also includes the Social Security numbers of the appropriate relatives of those people. When tickets are claimed at the lottery, the identity of the person claiming the prize is checked against that database so a prize won't be paid to an "inside" person.

Retailers, by contrast, don't have access to confidential information associated with the lottery and they can't affect the outcome of drawings. Yes, they sell lottery tickets, but they can't get into the computer system that contains game information or generates plays. They also aren't

included in the state law defining "insiders" in Iowa, so they aren't included in the lottery's database that's checked during prize redemption.

The lottery's efforts to protect its sales and validations system are double-checked on an annual basis by the state Auditor's office, which contracts with an auditing firm to conduct an SAS 70 audit of the lottery system. In addition, every two years, the Multi-State Lottery Association reviews the Iowa Lottery's computer system and associated controls to ensure they meet the security and integrity standards for participation in multi-jurisdictional games.

Finally, we come to the issue of consumer protection. The lottery has taken a number of steps through the years to provide the public with information about lottery games and prizes. But we have been putting on an especially heavy push in that area since early this year, when we conducted a news conference and began a public-service campaign with the Attorney General's office to warn people about the lottery scams that have been sweeping the country.

Leading up to the January news conference, we expanded and centralized the security information we have on our Web site and made "Player Security" one of the main links on our home page. We announced the expanded player security information in a statewide news release; we advertised the new security pages for months with Web banners on our Web site and other prominent sites around the state; and we mentioned it in statewide public service radio ads we produced and paid for along with the attorney general's office.

In addition to those security reminders, the lottery for years has provided information in its game brochures about its office locations, telephone numbers and Web site address. We also include that information in many of the news releases we send out every day.

~~But that's not all. For more than a decade, the lottery also has provided informational stickers on~~ its sales terminals, vending machines, play stations and ticket dispensers that remind players to check the accuracy of their tickets when they purchase them. The stickers advise players to sign the backs of their tickets before they claim them and to contact the lottery if they have any concerns. All of that information, as well as lists of prizes still available in our games and lists of prizes that have yet to be claimed, are available on our Web site. That's in addition to the security reminders that are printed on the backs of our tickets.

Our information also advises players that there are several ways they can check the results of their tickets: They can watch the televised drawings in lotto games, check the information on the lottery Web site, ask retailers to print out winning numbers from the lottery terminal, call one of the lottery's five regional offices around the state, listen to lottery results on local radio stations, and check lottery results in local newspapers.

The first line of defense in consumer protection is always for players to arm themselves with the information they need to determine whether their tickets have won a prize. That's much the same thing we all should be doing to ensure, for example, that a clerk has given us the proper change or that the milk we buy at the local store rings up for the right price. The lottery offers its players a plethora of information they can use to determine the outcome of their tickets. However, we

have felt that there is no substitute for player responsibility and player diligence, despite all the assistance that we can provide.

Hopefully, this has provided you with an overview of many of the security issues the lottery deals with on a daily basis. Again, there have been no consumer complaints here like those that have occurred in Canada. But we're not saying that we think our system is flawless. There may be improvements that can be made.

After consumer complaints in Ontario and Quebec, the lotteries there each have spent hundreds of thousands of dollars on consultants' evaluations of their systems. They are now in the process of implementing many of the consultants' suggestions for improvements, which have turned out to be some of the things we already have been doing for years.

We're not sure of the merit of some of the improvements prescribed in Canada, however. One of the relatively simple ideas is for a musical "jingle" that would play from the lottery terminal each time a winning ticket was scanned. Our terminals are capable of that change and we've discussed that idea in the past. But we've chosen not to use it because of concerns over public safety. A winning jingle might tip off stalkers to a particular player's good fortune, leaving that person vulnerable to attack once they left the retail establishment. Those are the types of issues that must be weighed when you're talking about new ideas that could be implemented.

We welcome your comments today regarding the security details we've covered, and whether you think it would be a good idea for the lottery to pursue an outside consultant to evaluate our security processes. At future Board meetings, we'd like to continue this conversation and focus in on particular areas we've covered in general today.

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